

Dallah Healthcare Company
(A Saudi Joint Stock Company)

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 AND
INDEPENDENT AUDITORS' REPORT**

Dallah Healthcare Company (A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS

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Independent auditor's report

To the shareholders of
Dallah Healthcare Company (a Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of Dallah Healthcare Company (the "Company") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in shareholder's equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") endorsed in the Kingdom of Saudi Arabia, and other standards and versions endorsed by Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the professional code of conduct and that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with its requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters include:

Key Audit Matters (continued)

Revenue recognition	
<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group recognized revenue of SR 1,212 million for the year ended 31 December 2017 (2016: SR 1,163 million).</p> <p>Revenue represents clinic services revenue and retail and wholesale sale of pharmacy and cosmetics goods revenue.</p> <p>The Group recognises revenue when:</p> <ul style="list-style-type: none"> • performance of a medical service occurs, and is measured at the fair value of the consideration received or receivable and net of trade discount, quantity discount and insurance companies' rejections upon providing the services to customers or upon delivery of products or accepted by customers; and • significant risks and rewards of ownership of the goods have been transferred to the buyer related to the sale of pharmacy and cosmetics goods revenue. <p>Revenue recognition is considered a key audit matter as there is a risk that revenue may be misstated due to management's override of controls, judgement involved in estimating the related provisions, mainly insurance companies' rejection rates and that the timing and amount of revenue recognized in a financial period can have a material effect on the financial performance.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> - Considering the appropriateness of revenue recognition as per the Group's policies including those relating to discounts and assessing compliance with applicable accounting standards; - Testing the design and effectiveness of internal controls implemented by the Group through the revenue cycle; - Testing sales transactions taking place at either side of the consolidated statement of financial position date to assess whether the revenue was recognized in the correct period; - Evaluating the method of provision related to accepted rejections of insurance companies. This was achieved through applying retrospective testing of management's judgement of such estimates; - Evaluating the contractual discounts arrangements with key customers, by recalculating the discounts awarded to such customers and also by agreeing the same with financial information used for the consolidated financial statements; and - Performing analytical review on revenue based on trends of monthly sales and profit margins.
<p>Refer to note (5.17) of the consolidated financial statements for the accounting policy related to revenue.</p>	

Key Audit Matters (continued)

Impairment of trade receivables	
<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group's trade receivables, net balance was SR 282 million as at 31 December 2017 (31 December 2016: SR 288 million and 1 January 2016: SR 259 million).</p> <p>Management estimates the collectible amount of trade receivables. For significant account balances this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time that the amount is past due.</p> <p>We considered impairment of trade receivables as a key audit matter due to the significant management judgment involved in determining the provision for doubtful debts and that the existence and carrying value of trade receivables could be material to the performance of the Group and to the Group's assets.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> - Considering the appropriateness of impairment of trade receivables as per the Group policies and assessing compliance with applicable accounting standards; - Testing the design and effectiveness of internal controls implemented by the Group through the trade receivables cycle; - Critically considering management's assumptions used in determining impairment losses for both specific and collective loss components; - Identifying those trade receivables with credit risk exposure and checking if they are properly included in management's impairment assessment; - Examining on a sample basis, evidence related to post year-end cash receipts. - We re-calculated the provision against trade receivables based on the Group's policies to ensure that the provision is appropriate at the statement of financial position date.
<p>Refer to note (5.7) of the consolidated financial statements for the accounting policy and note (14) for related disclosures.</p>	

Key Audit Matters (continued)

Recoverability of construction work-in-progress	
<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>As at 31 December 2017, included in property, plant and equipment is an amount of SR 822 million (31 December 2016: SR 427 million and 1 January 2016: SR 163 million) which relates to construction work-in-progress.</p> <p>The Group assesses, at each reporting date, whether there is any indication that the asset may be impaired. If any indication exists, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of value in use and fair value less costs to sell.</p> <p>We considered recoverability of construction work-in-progress as a key audit matter due to the assessment of the recoverable amount of construction work-in-progress requires estimation and judgement around expected production profiles, useful life of assets, future operating and capital expenditure, commodity prices and discount rates. These are all subjective matters.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> - Considering the appropriateness of Group's policies related to construction work-in-progress and assessing compliance with applicable accounting standards; - Assessing management's processes for identification of impairment indications and impairment testing and evaluated the design and implementation of key controls over these processes; - Assessing the reasonableness of the model used by management to estimate the recoverable amount; - Assessing management's assumptions used in the model as well as management's benchmarking with relevant market data and also with the Group's data related to its existing operations; and - Assessing the adequacy of the related disclosures.
<p>Refer to notes (5.2 & 5.4) of the consolidated financial statements for the accounting policy and note (6) for related disclosures.</p>	

Key Audit Matters (continued)

Impairment of investment in associate	
Key audit matter	How the matter was addressed in our audit
<p>The carrying value of Group's investment in associate was SR 141 million as at 31 December 2017 (31 December 2016: SR 143 million and 1 January 2016: SR 141 million).</p> <p>The Group assesses, at each reporting date, whether there is an indication that the investment in associate may be impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the loss as impairment loss of an associate in the consolidated statement of profit or loss and other comprehensive income.</p> <p>We considered impairment of investment in associate as a key audit matter due to its size and subjective nature.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> - Considering the appropriateness of Group's policies related to impairment testing of investment in associate and assessing compliance with applicable accounting standards; - Considering management's testing of impairment and evaluated the design and implementation of key controls over management's process of impairment testing; - Obtaining future cash flows related to investment in the associate and by critically reviewing the inputs and assumptions in the impairment tests performed.; and - Assessing the adequacy of the related disclosures.
<p>Refer to note (5.6) of the consolidated financial statements for the accounting policy and note (8) for related disclosures.</p>	

Key Audit Matters (continued)

IFRS conversion	
<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>For all periods up to and including the year ended 31 December 2016, the Group prepared its consolidated financial statements in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia as issued by SOCPA ("Previous GAAP"). The Group adopted IFRS as from 1 January 2017.</p> <p>These consolidated financial statements for the year ended 31 December 2017 are the first annual consolidated financial statements prepared in accordance with IFRS as endorsed in Kingdom of Saudi Arabia and other standards and pronouncement issued by SOCPA.</p> <p>The Group has prepared these annual consolidated financial statements that comply with IFRS as endorsed in KSA as at 31 December 2017, as well as for presenting the relevant comparative period data for the period ended 31 December 2016. In compliance with the requirements of IFRS 1 endorsed in the Kingdom of Saudi Arabia, the Group's opening statement of consolidated financial position was prepared as at 1 January 2016 ("transition date") after incorporating required adjustments to reflect the transition to IFRS as endorsed in KSA from the Previous GAAP.</p> <p>We considered this a key audit matter as the basis of accounting is fundamental to the presentation and preparation of the financial statements.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> - Considering the process to identify all necessary adjustments to opening balances and comparatives; - Examining management's categorization of major holdings in entities between subsidiaries and associated companies, matching management's analysis against shareholder and other agreements, recording of available-for sale investments and held to maturity investments, recognition of employees' end of service benefits and certain classification and re-classifications of various line items in statement of profit or loss account and other comprehensive income, and statements of financial position; - Critically examining management's approach to estimates, including estimated useful life of property, plant and equipment, and residual value; and - Testing these estimates against the advice from management experts, compared the useful lives to manufacturers' warranty terms where possible, and benchmarked estimates against industry peer groups.
<p>Refer to note (5) of the consolidated financial statements for the accounting policy and notes (2 & 32) for related disclosures.</p>	

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and Those Charged With Governance ("TCWG") for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS endorsed in the Kingdom of Saudi Arabia, other standards and versions endorsed by SOCPA and Regulations of Companies requirements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those Charged With Governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the management and TCWG regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide TCWG with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

From the matters communicated with TCWG, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion these consolidated financial statements, taken as a whole, comply with the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of consolidated financial statements.

For Dr. Mohamed Al-Amri & Co.,

Dr. Mohamed Al-Amri
Certified Public Accountant
Registration No. 60



Riyadh, on: 8 Jumada II 1439(H)
Corresponding to: 24 February 2018(G)

Dallah Healthcare Company (A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	<u>Note</u>	As at 31 December 2017 <u>SR</u>	As at 31 December 2016 <u>SR</u>	As at 1 January 2016 <u>SR</u>
ASSETS				
Non-current assets				
Property, plant and equipment	6	1,771,525,773	1,400,072,111	1,142,490,334
Intangible assets and goodwill	7	19,047,672	19,218,785	30,666,270
Investment in associate	8	140,978,759	142,814,086	141,424,895
Held to maturity investment	9	-	28,125,000	28,125,000
Available-for-sale investments	10	5,417,832	31,739,606	109,875,426
		<u>1,936,970,036</u>	<u>1,621,969,588</u>	<u>1,452,581,925</u>
Current assets				
Cash and cash equivalents	12	90,440,266	186,556,641	93,403,056
Inventories, net	13	79,931,847	69,149,649	87,980,415
Trade receivables, net	14	282,037,364	287,598,944	259,493,368
Due from related parties	16	181,612	844,184	825,047
Prepayments and other assets	15	110,348,219	79,908,712	103,927,620
Available-for-sale investment	10	28,125,000	-	-
		<u>591,064,308</u>	<u>624,058,130</u>	<u>545,629,506</u>
TOTAL ASSETS		<u>2,528,034,344</u>	<u>2,246,027,718</u>	<u>1,998,211,431</u>
EQUITY AND LIABILITIES				
Equity				
Equity attributable to owners of the parent:				
Share capital	17	590,000,000	590,000,000	590,000,000
Statutory reserve	18	398,251,315	398,251,315	398,251,315
Retained earnings		703,980,924	532,547,117	393,673,256
Reserve for available-for-sale investments		(281,995)	(4,642,458)	14,543,457
Total Equity		<u>1,691,950,244</u>	<u>1,516,155,974</u>	<u>1,396,468,028</u>
Liabilities				
Non-current liabilities				
Long term murabaha finance	19	458,280,007	323,028,630	245,453,716
Net employee defined benefit liability	20	106,595,301	96,075,804	83,471,011
		<u>564,875,308</u>	<u>419,104,434</u>	<u>328,924,727</u>
Current liabilities				
Trade and other payables	21	89,835,217	69,995,236	64,625,152
Short term murabaha finance	19	70,056,876	86,841,876	82,260,866
Current portion of long term murabaha finance	19	35,500,000	71,500,000	65,583,334
Due to related parties	16	984,854	307,201	567,657
Accrued expenses and other liabilities	22	60,865,810	68,892,686	50,066,188
Zakat payable	23	13,966,035	13,230,311	9,715,479
		<u>271,208,792</u>	<u>310,767,310</u>	<u>272,818,676</u>
Total liabilities		<u>836,084,100</u>	<u>729,871,744</u>	<u>601,743,403</u>
TOTAL EQUITY AND LIABILITIES		<u>2,528,034,344</u>	<u>2,246,027,718</u>	<u>1,998,211,431</u>

The accompanying notes from 1 to 34 form an integral part of these consolidated financial statements.

Dallah Healthcare Company (A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

	<u>Note</u>	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>
Revenue		1,212,076,315	1,162,788,987
Cost of revenue		(652,992,261)	(627,086,044)
Gross profit		559,084,054	535,702,943
Selling and marketing expenses	25	(11,559,117)	(24,695,664)
General and administrative expenses	26	(239,543,662)	(280,005,888)
Operating profit		307,981,275	231,001,391
Other income	24	878,201	19,235,398
Finance charges	19	(1,873,398)	(1,809,233)
Impairment of intangible assets	7	-	(11,091,000)
Share of (loss) / profit from investment in an associate	8	(1,835,327)	1,389,191
Profit before Zakat		305,150,751	238,725,747
Zakat expense	23	(10,174,539)	(14,011,532)
Profit for the year		294,976,212	224,714,215
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Re-measurement of defined benefit liability	20	(5,542,405)	2,659,646
Items that are or may be reclassified subsequently to profit or loss			
Net movement on available-for-sale financial assets	10	4,360,463	(19,185,915)
Other comprehensive income / (loss) for the year		(1,181,942)	(16,526,269)
Total comprehensive income		293,794,270	208,187,946
Profit for the year attributable to:			
Owners of the parent		294,976,212	224,714,215
Total comprehensive income for the year attributable to:			
Owners of the parent		293,794,270	208,187,946
Basic and diluted earnings per share:			
Profit from operations for the year		5.22	3.92
Net profit for the year	28	5.00	3.81
Weighted average number of outstanding shares	28	59,000,000	59,000,000

The accompanying notes from 1 to 34 form an integral part of these consolidated financial statements.

Dallah Healthcare Company (A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	<u>Note</u>	<u>Statutory reserve</u>			<u>Retained earnings</u>	<u>Reserve for available-for-sale investments</u>	<u>Total attributable to the owners of parent</u>
		<u>Share capital</u>	<u>Share premium</u>	<u>Transfer from net income</u>			
		<u>SR</u>	<u>SR</u>	<u>SR</u>			
Balance as at 1 January 2016		590,000,000	371,142,305	27,109,010	393,673,256	14,543,457	1,396,468,028
Profit for the year		-	-	-	224,714,215	-	224,714,215
Other comprehensive income		-	-	-	2,659,646	(19,185,915)	(16,526,269)
Transactions with shareholders:							
Dividends paid	27	-	-	-	(88,500,000)	-	(88,500,000)
Balance as at 31 December 2016		590,000,000	371,142,305	27,109,010	532,547,117	(4,642,458)	1,516,155,974
Profit for the year		-	-	-	294,976,212	-	294,976,212
Other comprehensive income		-	-	-	(5,542,405)	4,360,463	(1,181,942)
Transactions with shareholders:							
Dividends paid	27	-	-	-	(118,000,000)	-	(118,000,000)
Balance as at 31 December 2017		590,000,000	371,142,305	27,109,010	703,980,924	(281,995)	1,691,950,244

The accompanying notes from 1 to 34 form an integral part of these consolidated financial statements.

Dallah Healthcare Company (A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	<u>Note</u>	2017 <u>SR</u>	2016 <u>SR</u>
OPERATING ACTIVITIES			
Profit for the year before zakat		305,150,751	238,725,747
Financial charges	19	1,873,398	1,809,233
<i>Adjustments to reconcile profit before Zakat to net cash flow:</i>			
Depreciation of property, plant and equipment	6	59,571,378	58,618,875
Amortization of intangible assets	7	171,113	356,485
Impairment of intangible assets	7	-	11,091,000
Employees' defined benefits provision	20	19,979,809	37,106,015
Provision for doubtful debts	26	(2,544,747)	31,000,710
Provision for inventory	26	1,567,973	25,373,432
(Gain) / loss on sale of property, plant and equipment	24	(251,651)	155,180
Share of loss / (profit) from an associate	8	1,835,327	(1,389,191)
Loss / (gain) on sale of available for sale investment	10	11,688,328	(9,416,012)
<i>Net changes in working capital:</i>			
Trade and other receivables	14	8,106,327	(59,106,286)
Inventory	13	(12,350,171)	(6,542,666)
Related parties, net	16	1,340,225	(279,593)
Prepayments and other assets	15	(30,439,507)	24,018,908
Trade and other payables	21	19,839,981	5,370,084
Accrued expenses and other liabilities	22	(8,027,604)	18,826,498
Cash flows from operations		377,510,930	375,718,419
Zakat paid	23	(9,438,088)	(10,496,700)
Employees' defined benefits paid	20	(15,002,717)	(21,841,576)
Net cash generated from operating activities		353,070,125	343,380,143
INVESTING ACTIVITIES			
Proceeds from disposal of available for sale investments	10	18,993,910	68,365,917
Additions to property, plant and equipment	6	(431,420,913)	(316,356,832)
Proceeds from sale of property and equipment		647,524	1,000
Net cash used in investing activities		(411,779,479)	(247,989,915)
FINANCING ACTIVITIES			
Proceeds of short-term murabaha finance	19	563,000,000	456,000,000
Repayments of short-term murabaha finance	19	(586,000,000)	(454,000,000)
Repayments of long-term loans	19	(1,425,486,746)	(1,129,606,487)
Proceeds of long-term murabaha finance	19	1,530,953,123	1,215,679,077
Dividends paid	27	(118,000,000)	(88,500,000)
Financial charges	19	(1,873,398)	(1,809,233)
Net cash used in financing activities		(37,407,021)	(2,236,643)
Net changes in cash and cash equivalents		(96,116,375)	93,153,585
Cash and cash equivalents at beginning of the year		186,556,641	93,403,056
Cash and cash equivalents	12	90,440,266	186,556,641
Supplementary information for non-cash transactions			
Write-off of accounts receivable bad debts	14	16,417,082	9,360,215
Write-off of inventories obsolescence	13	14,131,113	14,709,912
Write-off bad debts of prepayments and other current assets	15	528,156	62,210
Unrealized gain / (loss) from revaluation of available for sale investments	10	4,360,463	(19,185,915)

The accompanying notes from 1 to 34 form an integral part of these consolidated financial statements.

Dallah Healthcare Company (A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS

NOTES FORMING PART OF CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

1. LEGAL STATUS AND NATURE OF OPERATIONS

Dallah Healthcare Company (the "Company") was established in the Kingdom of Saudi Arabia as a limited liability company under commercial registration No. 1010128530 dated 13 Rabi II 1415H (corresponding to September 18, 1994) in Riyadh. The Company's board of directors declared Dallah Healthcare Company as a Saudi Closed Joint Stock Company on 14 Jumad I 1429H (corresponding to May 20, 2008). On 28 Dhu Al Qa'dah 1433H (corresponding to October 14, 2012), the Company obtained an approval to be transferred to a public joint stock company by issuing 14.2 million shares in an initial public offering with a nominal value of SR 142 million, as a result of the offering, a share premium of SR 371 million was included in the Company's statutory reserve. The Company became a listed company in the Saudi Capital Market on 4 Safar 1434H (corresponding to December 17, 2012). The Company changed its trading name from Dallah Healthcare Holding Company to Dallah Healthcare Company during an extraordinary annual general meeting held on 16 Safar 1438H (corresponding to 16 November 2016).

These consolidated financial statements comprise the Company and its subsidiaries (together referred to as the "Group").

The objectives of the Company are to operate, manage and maintain the healthcare facilities, wholesale and retail of medicals, surgical equipment, artificial parts, handicapped and hospital equipment and manufacturing medicines, pharmaceuticals, herbals, health, cosmetics, detergents, disinfectants and packaging in the Kingdom of Saudi Arabia.

a- Construction in progress - The Company has started the construction of Dallah Hospital -Namar project, with a maximum capacity of 400 beds and 200 clinics which is planned to be completed in stages, with an estimated total cost for this project amounting to SR 920 million. As at 31 December 2017, the final finishing works are complete for the first stage of the project for 150 beds and 100 clinics and commercial activities are expected to commence in the first quarter of 2018.

On 25 September 2017 the Company started the construction of the West Expansion of Dallah Hospital - Al-Nakheel, which will have a capacity of 150 beds and 30 clinics and it is planned to be completed by the second quarter of 2019, with an estimated total cost of SR 140 million.

b- Share capital - The share capital of the Company as of 31 December 2017 amounted to SR 590,000,000 (2016: SR 590,000,000) comprises of 59 million shares (2016: 59 million shares) stated at SR 10 per share.

1.1 Interest in subsidiaries

The Company holds investments in the following subsidiaries (the "Subsidiaries") as at the reporting period and the trading results of these Subsidiaries are included in these consolidated financial statements.

Name of subsidiary	Proportion of ownership interest held by Company (%)		Country of operation and incorporation	Principal activity
	31 December 2017	2016		
Dallah Pharma Company	100%	98%	Kingdom of Saudi Arabia	Pharmaceutical, herbal & cosmetic distribution & manufactory.
Afyaa Al-Nakheel for Supporting Services Co. Limited *	99%	99%	Kingdom of Saudi Arabia	Provide manpower & Support services to hospitals and medical centre.
Dallah Namar Hospital Health Co.	100%	-	Kingdom of Saudi Arabia	Operating, managing, equipping and developing hospitals and healthcare facilities, medical polyclinics and compounds, owning lands.

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1. LEGAL STATUS AND NATURE OF OPERATIONS (continued)

1.1 Interest in subsidiaries (continued)

On 5 Rabi II 1438H (corresponding to January 2, 2017), the Company acquired the remaining equity interest of 2% in Dallah Pharma Company which was owned by another party on behalf of the Company, so accordingly the Company's shareholding changed from 98% to 100%.

On 10 Rabi II 1438H (corresponding to January 8, 2017), the Company established a limited liability company "Dallah Namar Hospital Health Co." under commercial registration No. 1010495218, with share capital of SR 5 million, fully owned (self financed). The purpose of the new company is operating, managing, equipping and developing hospitals and healthcare facilities, medical policlinics and compounds, in addition to owning land.

* The Company effectively owns 100% of Afyaa Al-Nakheel for Supporting Services Co. as the remaining 1% equity interest therein is owned by other parties on behalf of the Company and therefore effectively *non-controlling interest* does not exist in the consolidated financial statements.

1.2 Interests in associates

The Company holds investments in the following associate as at the reporting date:

Name of associate	Proportion of ownership interest (%)		Country of operation and incorporation	Principal activity
	31 December			
	<u>2017</u>	<u>2016</u>		
Dr. Mohammed Rashed Al-Faqeeh Company	30%	30%	Kingdom of Saudi Arabia	Owning, operating and maintaining the hospital and health centres

1.3 Branches

These consolidated financial statements include the accounts of the Group's branches, operating under individual commercial registrations:

<u>Branch Commercial Registration City</u>	<u>Branch Commercial Registration City</u>	<u>Branch Commercial Registration City</u>
Head Office	2057004206	Al Khafji
Dallah Hospital	1010132622	Riyadh
Medicine Warehouse (Dallah Pharma)	2050071905	Dammam
Medicine Warehouse (Dallah Pharma)	1010128997	Riyadh
Medicine Warehouse (Dallah Pharma)	4030140769	Jeddah
Medicine Warehouse (Dallah Pharma)	4030265250	Jeddah
Medicine Warehouse (Dallah Pharma)	1010381470	Riyadh
Dallah Pharma Factory	4030249929	Jeddah
Dallah Health Care Company's Clinical Complex	1010428613	Riyadh
Dallah Pharma Factory for medicines	4030278471	Jeddah

2. STATEMENT OF COMPLIANCE WITH IFRS

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs), issued by the International Accounting Standards Board (IASB) as endorsed by Saudi Organization for Certified Public Accountants ("SOCPA").

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2. STATEMENT OF COMPLIANCE WITH IFRS (continued)

The Group prepared its financial statements in accordance with the accounting standards promulgated by SOCPA, for all periods up to the year ended 31 December 2016. The consolidated financial statements for the year ended 31 December 2017 are the first that the Group prepared in accordance with IFRSs as adopted by SOCPA. Refer to Note 32 for information on how the Group adopted IFRSs.

The consolidated financial statements are presented in Saudi Riyals.

3. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS

3.1 Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Group

<u>Standard number</u>	<u>Title</u>	<u>Effective date</u>
IFRS 15	Revenue from Contracts with Customers – New	January 1, 2018
IFRS 9	Financial Instruments – Amendments	January 1, 2018
IFRS 16	Leases	January 1, 2019
Other		

IFRS 15 Revenue from Contracts with Customers - New (effective for accounting period beginning on or after January 1, 2018)

IFRS 15 establishes a single comprehensive five-step model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue Standards and Interpretations upon its effective date:

- IAS 18 *Revenue*;
- IAS 11 *Construction Contracts*;
- IFRIC 13 *Customer Loyalty Programmes*;
- IFRIC 15 *Agreements for the Construction of Real Estate*;
- IFRIC 18 *Transfers of Assets from Customers*; and
- SIC 31 *Revenue-Barter Transactions Involving Advertising Services*.

Guidance is also provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

IFRS 9 Financial Instruments – Amendments (effective for accounting period beginning on or after January 1, 2018)

In July 2014, the IASB issued the final version of IFRS 9 ‘Financial Instruments’ which reflects all phases of the financial instruments project and replaces IAS 39 ‘Financial Instruments: Recognition and Measurement’ and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

Classification and measurement

Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a ‘fair value through other comprehensive income’ category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity’s own credit risk.

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3. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS
(continued)

3.1 Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Group (continued)

IFRS 9 Financial Instruments – Amendments (effective for accounting period beginning on or after January 1, 2018) (continued)

Impairment

The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.

Hedge accounting

Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

Derecognition

The requirements for derecognition of financial assets and liabilities are carried forward from IAS 39.

IFRS 9 is effective for accounting period beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015.

Management has yet to assess the impact of this revised standard on the Group's consolidated financial statements.

IFRS 16 Leases - New (effective for accounting period beginning on or after 1 January 2019)

IFRS 16 Leases specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

Other

The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the group.

The following is a list of other new and amended standards which, at the time of writing, had been issued by the IASB but which are effective in future periods. The amount of quantitative and qualitative detail to be given about each of the standards will, much like the amount of detail to be given about IFRSs 9 and 16, depend on each entity's own circumstances.

- IFRIC 22 Foreign Currency Translations and Advance Consideration (effective 1 January 2018)
- Amendments to IFRS 2 classification and Measurement of Share-based payment Transactions (effective 1 January 2018)
- Amendments to IAS 40: Transfers of Investment Property (effective 1 January 2018)
- Annual Improvements to IFRS Standards 2014-2016 cycle dealing with matters in IFRS 1 First-time Adoption and IAS 28 Investments in Associates and Joint Ventures (effective 1 January 2018)
- IFRIC 23 Uncertainty over Income Tax Positions (effective 1 January 2019)
- Amendments to IFRS 9 Prepayment Features with Negative Compensation (effective 1 January 2019)
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective 1 January 2019)

Management has yet to assess the impact of this new standard on the Company's financial statements.

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4. BASIS OF PREPARATION

4.1 Overall considerations

These consolidated financial statements have been prepared using the measurement bases specified by IFRSs for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies.

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out in note 5. The policies have been consistently applied to all the years presented, unless otherwise stated.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 5.

These financial statements have been prepared on the historical cost basis, except for the following:

- Available-for-sale investments which are measured at fair value; and
- Defined benefits plan are measured at present value of future obligations using Projected Unit Credit Method.

Furthermore, these financial statements are prepared using the accrual basis of accounting and the going concern concept.

4.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and non-controlling interest, even if this results in the non-controlling interest having a deficit balance.

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4. BASIS OF PREPARATION (continued)

4.2 Basis of consolidation (continued)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the accounting policies to all periods presented in these financial statements and in preparing the opening IFRS statement of financial position at 1 January 2016 for the purposes of the transition to IFRSs.

Following are the significant accounting policies applied by the Group in preparing its consolidated financial statements:

5.1 Foreign currency translation

Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyals (SR), which is also the functional currency of the Group.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of profit or loss and other comprehensive income as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	<u>Number of years</u>
Buildings	16-33
Leasehold improvements	Shorter of estimated useful life (5) or lease year
Machinery and equipment	3-10
Medical equipment	6-8
Furniture and fixtures	5-10
Vehicles	4

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Construction work in progress is stated at cost less impairment losses, if any, and is not depreciated until the asset is brought into commercial operations.

5.3 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the consolidated statement of profit or loss and other comprehensive income when it is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible assets.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Intangible assets (continued)

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognised.

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	Useful economic life	Valuation method
Licences and trademarks	10 years	Multiple of estimated revenues and profits

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognized in the consolidated statement of profit or loss and other comprehensive income.

Goodwill and intangible assets with indefinite lives

Goodwill acquired through business combinations and licenses with indefinite lives are allocated to CGUs which are also operating and reportable segments, for impairment testing as carrying amount of goodwill and licenses allocated to each of the CGUs.

The recoverable amount of a Cash Generating Unit is determined based on the higher of fair values less costs to sell and value-in-use calculations. Fair values less costs to sell are estimated by using the capitalised earnings approach and comparing the same with those of other entities in the same industry within the region

The calculation of value in use is most sensitive to the following assumptions:

- Gross margin
- Discount rates
- Raw material price inflation
- Market share during the budget period
- Growth rate used to extrapolate cash flows beyond the budget period

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Intangible assets (continued)

Goodwill and intangible assets with indefinite lives (continued)

Discount rates — Discount rates represent the current market assessment of the risks specific to each cash-generating unit, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly-available market data.

Raw material inflation — Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publicly available, otherwise past actual raw material price movements have been used as an indicator of future price movements.

5.4 Impairment testing of non-financial assets

Disclosures relating to impairment of non-financial assets are summarized in the following notes:

Accounting policy disclosures

Disclosures for significant assumptions

Property, plant and equipment

Intangible assets and goodwill

Goodwill and intangible assets with indefinite lives

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognized in the consolidated statement of profit or loss and other comprehensive income in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognized in OCI up to the amount of any previous revaluation.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.4 Impairment testing of non-financial assets (continued)

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of profit or loss and other comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

5.5 Investment in subsidiaries

Subsidiaries are all entities over which the Group has control. Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Investments in subsidiaries that have not been consolidated due to in-significance are carried at cost less any accumulated impairment.

The cost of an investment in a subsidiary is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group; plus
- any costs directly attributable to the acquisition of the subsidiary.

All subsidiaries have a reporting date of December 31.

5.6 Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The considerations made in determining whether significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.6 Investment in associates and joint ventures (continued)

The consolidated statement of profit or loss and other comprehensive income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate and joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of profit or loss and other comprehensive income outside operating profit and represents profit or loss and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the loss as impairment loss of an associate and a joint venture' in the consolidated statement of profit or loss and other comprehensive income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

5.7 Financial instruments – Recognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i. Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Measurement of fair values

The Group's financial assets and financial liabilities are measured at amortised cost except for certain available-for-sale investments which are carried at fair value. Fair values measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.7 Financial instruments – Recognition and measurement (continued)

i. Financial assets (continued)

Measurement of fair values (continued)

The Company has not disclosed the fair value for financial instruments such as short term trade and other receivables, trade and other payables and cash and bank balances, because their carrying amounts are a reasonable approximation of fair values largely because of short term maturity of these instruments. Company has disclosed the fair value of bank loans held at amortized cost.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance income (positive net changes in fair value) or finance costs (negative net changes in fair value) in the consolidated statement of profit or loss and other comprehensive income. The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held-for-trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value, with changes in fair value recognised in the consolidated statement of profit or loss and other comprehensive income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

For the purpose of subsequent measurement, financial assets are classified into following categories:

- loans and receivables
- available-for-sale financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the consolidated statement of profit or loss and other comprehensive income. The losses arising from impairment are recognized in the consolidated statement of profit or loss and other comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables.

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NOTES FORMING PART OF CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.7 Financial instruments – Recognition and measurement (continued)

i. Financial assets (continued)

Available for sale financial assets (AFS)

AFS financial assets include equity and debt securities. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as OCI in the AFS reserve until the investment is derecognized, at which time, the cumulative gain or loss is recognized in other operating profit, or the investment is determined to be impaired, at which time, the cumulative loss is reclassified to the consolidated statement of profit or loss and other comprehensive income in finance costs and removed from the AFS reserve. Interest income on available-for-sale debt securities is calculated using the effective interest method and is recognized in profit or loss.

The Group evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances.

For a financial asset reclassified out of the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of profit or loss and other comprehensive income.

Impairment on AFS financial assets

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of comprehensive income – is removed from other comprehensive income and recognized in the consolidated statement of profit or loss and other comprehensive income. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in other comprehensive income.

The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of comprehensive income.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.7 Financial instruments – Recognition and measurement (continued)

i. Financial assets (continued)

Impairment on AFS financial assets (continued)

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the consolidated statement of profit or loss and other comprehensive income.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of profit or loss and other comprehensive income. The losses arising from impairment are recognized in the consolidated statement of profit or loss and other comprehensive income in finance costs.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.7 Financial instruments – Recognition and measurement (continued)

i. Financial assets (continued)

Derecognition (continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (EIR).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the consolidated statement of profit or loss and other comprehensive income. Interest income (recorded as finance income in the consolidated statement of profit or loss and other comprehensive income) continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of profit or loss and other comprehensive income.

ii. Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

Measurement of fair values

The Group's financial liabilities are measured at amortised cost assumes that the liability is exchanged in an orderly transaction between market participants to transfer the liability at the measurement date under current market conditions.

The Company has not disclosed the fair value for financial instruments such as trade and other payables, because their carrying amounts are a reasonable approximation of fair values largely because of short term maturity of these instruments. Company has disclosed the fair value of bank loans held at amortized cost.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.7 Financial instruments – Recognition and measurement (continued)

ii. Financial liabilities (continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held-for-trading are recognized in the consolidated statement of profit or loss and other comprehensive income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has not designated any financial liabilities as at fair value through profit or loss.

For the purpose of subsequent measurement, financial liabilities are classified as follows:

- loans and borrowings

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the Effective Interest Rate (EIR) method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statement of profit or loss and other comprehensive income.

This category generally applies to interest-bearing loans and borrowings.

Derecognition

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of profit or loss and other comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

5.8 Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and in hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.9 Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using weighted average method/batch. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. The provision is provided for obsolescence inventories.

The Group receives rebates in the ordinary course of business from a number of its suppliers of pharmaceutical products, in accordance with contractual arrangements in place with specific suppliers. The rebate is recognized as a reduction in the purchase price as soon as the goods are purchased. In some cases some free items are given with the purchase of bulk quantity of certain inventory items, the free item is valued at the current market price and cost of inventory is reduced by the said amount.

Costs are assigned using the following methods:

- | | |
|-------------------------------------|-------------------------------|
| • Raw materials | Weighted average cost / batch |
| • Spare parts and packing materials | Weighted average cost |
| • Medical consumables and medicines | Weighted average cost |
| • Inventory, work- in- progress | Weighted average cost |
| • Finished goods | Weighted average cost |

5.10 Trade receivables

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision for doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the consolidated statement of profit or loss and other comprehensive income and reported under "General and administrative expenses". When an account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "General and administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

5.11 Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued.

Retained earnings include all current and prior period profits.

The Group recognises a liability to make cash or non-cash distributions to owners of equity when the distribution is authorised and the distribution is no longer at the discretion of the Group. As per corporate law, a distribution is authorised when it is approved by the shareholders.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity.

Upon settlement of the distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in profit or loss.

All transactions with shareholders are recorded separately within equity.

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NOTES FORMING PART OF CONSOLIDATED FINANCIAL STATEMENTS
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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.12 Employee benefits

The cost of defined benefit post-employment benefits and the present value of the related obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, withdrawal before normal retirement age, mortality rates etc. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate. The discount rate used is based on the government bonds with the similar maturity.

Based on the employees turnover moderate Age-wise withdrawal rates are used in carrying out the valuation. The said age-wise withdrawal rates are generally used in the Middle East and North Africa (MENA) region to carry out the actuarial valuation of end of service benefit Schemes.

The mortality rates assumed are based on the Life Insurance Companies (LIC) (1975-79) ultimate mortality tables, rated down one year. In the absence of any standard mortality tables in the region, these rates are generally used in Kingdom of Saudi Arabia in carrying out the actuarial valuation of End of Service Benefits (EoSB) Schemes. If any other mortality table is used it will not make any significant difference in the results. Future salary increase is based on the management expectation on long term salary increases based on inflation and other factors.

5.13 Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

For arrangements entered into prior to 1 January 2016, the date of inception is deemed to be 1 January 2016 in accordance with IFRS 1 First-time Adoption of International Reporting Standards.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Group as a lessee

Finance leases that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statement of profit or loss and other comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.13 Leases (continued)

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

5.14 Provisions and contingent liabilities

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised, unless it was assumed in the course of a business combination.

Provision for uncollectible claims

Claims against services rendered are recorded as part of the accounts receivables. A provision for uncollectible claims is treated as provision for doubtful debts which is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are treated as accounts receivables and charged to the consolidated statement of profit or loss and other comprehensive income and reported under "General and administrative expenses".

5.15 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

5.16 Payables and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

5.17 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.17 Revenue (continued)

The specific recognition criteria described below must also be met before revenue is recognized.

Clinic services

Clinic service revenues represent the revenue which the Group generates from the provision of either inpatient or outpatient medical services. The Group primarily generates clinic service revenues from patients' private /medical insurance or government and cash patients. Clinic revenues are recognised when, and to the extent that, performance of a medical service occurs, and is measured at the fair value of the consideration received or receivable and net of trade discount, quantity discount and insurance companies rejections upon providing the services to customers or upon delivery of products or accepted by customers.

Sale of Goods – Pharmacy

The sales of goods from pharmacy relates to the sale of pharmaceutical and other products from hospitals and pharmacies. Whilst the Group does not establish the prices for the pharmaceutical products sold as both the purchase and selling prices for all pharmaceutical products are fixed by the Ministry of Health, the Group has determined that it is acting as a Principal in respect of these sales as it provides the goods for sale, it bears the inventory risk and it bears the credit risk from customers. Revenue from the sale of goods – Pharmacy is therefore recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Significant risk for retail goods is passed to the buyer at the point of sale.

Sale of Goods – Distribution

Revenue from the sale of goods is therefore recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Significant risk for retail goods is passed to the buyer for wholesale goods at the time of delivery.

For agency relationships, the revenue earned is measured as the Group's share of the revenue, as specified in the contract. Any amounts collected on behalf of the third party are excluded from revenue and are recorded as a payable. There are currently no material agency relationships.

Commission income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as AFS, commission income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Commission income is included in finance income in the consolidated statement of profit or loss and other comprehensive income.

Dividend income

Dividend is recognised in the profit and loss when the Group has right to receive the payment is established which is generally when the shareholders approve the dividend.

Rental income

Rental income arising from operating leases is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of profit or loss and other comprehensive income due to its operating nature.

5.18 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

5.19 Selling, marketing, general and administrative expenses

Selling, marketing and general and administrative expenses include direct and indirect costs not specifically part of cost of sales. Allocations between selling, marketing and of general and administrative expenses, cost of sales, when required, are made on a consistent basis.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.20 Zakat

The Company and its Subsidiaries are subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax (the “GAZT”). Provision of zakat is calculated as per the zakat base prepared on the basis of the consolidated financial statements of Dallah Healthcare Company and its Subsidiaries directly or indirectly owned by the Group. The calculated zakat provision is then distributed between the Company and its Subsidiaries. Any differences between the provision and the final assessment are recorded at the approval of the final assessment, when the provision is closed. The Group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

5.21 Significant management judgement in applying accounting policies

When preparing the consolidated financial statements, management undertakes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the consolidated financial statements.

Revenue

Revenues are recognised net of insurance companies’ rejections which are the best estimate of the Group, based on its past experience and judgment.

Trade receivables

The Group assesses its trade receivables for impairment at each reporting date. In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on an individual customer basis, based on historical loss ratios, adjusted for industry specific economic conditions and other indicators present at the reporting date that correlate with defaults on the individual customers.

Leases

In applying the classification of leases in IAS 17, management considers its leases either as operating lease or finance lease arrangements. In some cases, the lease transaction is not always conclusive, and management uses judgement in determining whether the lease is an operating or finance lease arrangement. For interest free finance lease arrangement, management uses best estimate in determining the interest rate prevailing in the market for the purpose of discounting.

Control assessment

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in note 5.5. Management has reviewed its control assessments in accordance with IFRS 10 and has concluded that there is no effect on the classification (as subsidiaries or otherwise) of any of the Group’s investees held during the period or comparative periods covered by these consolidated financial statements.

5.22 Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may substantially differ.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.22 Estimation uncertainty (continued)

Impairment of non-financial assets

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Group's assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets to the Group. The carrying amounts are analysed in relevant notes. Actual results, however, may vary due to technical or other obsolescence.

Inventories

Inventories are measured at the lower of cost or net realisable value. In estimating net realisable values, management takes into account the most reliable evidence available at the times the estimates are made. The Group reviews its inventory to assess loss on account of obsolescence on a regular basis. In determining whether allowance for obsolescence should be recognized in the consolidated statement of profit or loss and other comprehensive income, the Group makes judgments as to whether there is any observable data indicating that there is any future recoverability of an item and the net realizable value for such item.

Leases

Management uses best estimate in determining the interest rate prevailing in the market for the purpose of discounting of interest free finance lease arrangement.

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6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Leasehold	Machinery	Medical	Furniture	Vehicles	Construction	Total
	SR	SR	Improvements	and	Equipment	and Fixtures	SR	Work In	SR
Cost:			SR	Equipment	SR	SR	SR	Progress	SR
As at 1 January 2016	530,002,198	473,302,208	61,224,476	61,732,996	324,718,184	21,401,402	7,872,217	162,687,101	1,642,940,782
Additions	-	6,841,580	9,687,758	9,094,475	24,275,745	1,917,461	509,400	264,030,413	316,356,832
Disposals	-	-	(241,437)	(6,500)	(17,109,451)	(2,086,776)	-	-	(19,444,164)
As at 31 December 2016	530,002,198	480,143,788	70,670,797	70,820,971	331,884,478	21,232,087	8,381,617	426,717,514	1,939,853,450
Additions	-	-	1,845,623	5,711,152	25,240,549	1,080,791	1,520,000	396,022,798	431,420,913
Disposals	-	-	-	-	(3,248,687)	(41,930)	(1,708,804)	(347,475)	(5,346,896)
As at 31 December 2017	530,002,198	480,143,788	72,516,420	76,532,123	353,876,340	22,270,948	8,192,813	822,392,837	2,365,927,467
Accumulated Depreciation:									
As at 1 January 2016	-	185,121,669	40,376,505	53,064,224	202,865,713	13,566,448	5,455,889	-	500,450,448
Charge for the year	-	16,350,949	5,439,499	1,963,891	32,063,605	1,630,273	1,170,658	-	58,618,875
Elimination on disposals	-	-	(241,429)	(6,500)	(16,992,755)	(2,047,300)	-	-	(19,287,984)
As at 31 December 2016	-	201,472,618	45,574,575	55,021,615	217,936,563	13,149,421	6,626,547	-	539,781,339
Charge for the year	-	14,514,506	6,662,303	1,822,368	33,850,101	1,600,488	1,121,612	-	59,571,378
Elimination on disposals	-	-	-	-	(3,200,564)	(41,669)	(1,708,790)	-	(4,951,023)
As at 31 December 2017	-	215,987,124	52,236,878	56,843,983	248,586,100	14,708,240	6,039,369	-	594,401,694
Net book value:									
As at 31 December 2017	530,002,198	264,156,664	20,279,542	19,688,140	105,290,240	7,562,708	2,153,444	822,392,837	1,771,525,773
As at 31 December 2016	530,002,198	278,671,170	25,096,222	15,799,356	113,947,915	8,082,666	1,755,070	426,717,514	1,400,072,111
As at 1 January 2016	530,002,198	288,180,539	20,847,971	8,668,772	121,852,471	7,834,954	2,416,328	162,687,101	1,142,490,334

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6. PROPERTY, PLANT AND EQUIPMENT (continued)

In the opinion of management, there has been no impairment in the carrying value of the Group's property, plant and equipment as at 31 December 2017 (31 December 2016: SR nil) and (1 January 2016: SR nil)

The allocation of depreciation expense between cost of goods and services, administrative and general expenses is as follows:

	2017	2016
	SR	SR
Cost of sales and services	56,478,618	54,653,268
General and administrative expenses (note 26)	3,092,760	3,965,607
	<u>59,571,378</u>	<u>58,618,875</u>

7. INTANGIBLE ASSETS AND GOODWILL

	Manufacturing product licenses	Product licenses	Goodwill	Leasehold Rights *	Total
	SR	SR	SR	SR	SR
Cost:					
As at 1 January 2016	10,648,000	11,505,000	5,091,000	3,422,270	30,666,270
As at 31 December 2016	10,648,000	11,505,000	5,091,000	3,422,270	30,666,270
As at 31 December 2017	10,648,000	11,505,000	5,091,000	3,422,270	30,666,270
Amortisation:					
As at 1 January 2016	-	-	-	-	-
Amortization	-	-	-	356,485	356,485
Impairment	3,000,000	3,000,000	5,091,000	-	11,091,000
As at 31 December 2016	3,000,000	3,000,000	5,091,000	356,485	11,447,485
Amortisation	-	-	-	171,113	171,113
As at 31 December 2017	3,000,000	3,000,000	5,091,000	527,598	11,618,598
Net book value:					
As at 31 December 2017	7,648,000	8,505,000	-	2,894,672	19,047,672
As at 31 December 2016	7,648,000	8,505,000	-	3,065,785	19,218,785
As at 1 January 2016	10,648,000	11,505,000	5,091,000	3,422,270	30,666,270

* The leasehold rights represent the amount paid to a lessor for acquiring land lease contract in Jeddah that is amortized over the remaining contract years which is started on 10 Safar 1436H (corresponding to December 2, 2014) and ends on 10 Safar 1456H (corresponding to April 29, 2034).

In the opinion of management, there has been no impairment in the net carrying value of intangible assets as at 31 December 2017 (2016: SR 11.09 million).

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8. INVESTMENT IN AN ASSOCIATE

Investment in associate comprises of Dr. Mohammed Rashed Al-Faqeeh Company, which is a limited liability company which is constructing a general hospital east of Riyadh city. The Group's interest is accounted for using the equity method in the consolidated financial statements (refer to Note 1.2 for the holding percentage).

The shares of the associate are not publicly listed on a stock exchange and hence published price quotes are not available.

The movement is as follows:

	As at 31 December 2017	As at 31 December 2016	As at 1 January 2016
	<u>SR</u>	<u>SR</u>	<u>SR</u>
Opening balance	142,814,086	141,424,895	-
Additions	-	-	141,900,000
Finalisation adjustment of 2016	(881,805)	-	-
Share of (loss) / profit	(953,522)	1,389,191	(475,105)
Closing balance	140,978,759	142,814,086	141,424,895

The aggregate amounts of certain financial information of the associate can be summarised as follows:

	As at 31 December 2017	As at 31 December 2016	As at 1 January 2016
	<u>SR</u>	<u>SR</u>	<u>SR</u>
Assets	440,141,040	435,147,402	433,456,206
Liabilities	13,094,858	2,100,449	4,487,368
Revenues	2,618,810	-	-
(Loss) / profit for the year	(3,178,405)	4,630,637	(1,031,162)
Total accumulated (loss) / profit	(3,079,393)	3,046,953	(1,031,162)

In the opinion of management, there has been no impairment in the carrying value of the Group's investment in associate as at the reporting period.

The Group has not incurred any contingent liabilities or other commitments relating to its investment in associate.

9. HELD TO MATURITY INVESTMENT

Held to maturity investment of SR 28,125,000 (31 December 2016: SR 28,125,000 and 1 January 2016: SR 28,125,000) represents an investment in Sukuk in US dollars in compliance with Islamic sharia, maturing on 7 April 2023 and which can be sold before its maturity date.

In December 2017, the Company decided to sell its held to maturity investment before its maturity date and therefore it has been reclassified from held to maturity investment to available-for-sale investment in current assets as at 31 December 2017, see notes 10, and 33 for details.

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10. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments at the reporting date are as follows:

	Country	Ownership	As at 31 December 2017	As at 31 December 2016	As at 1 January 2016
		%	SR	SR	SR
Quoted investments:					
Aseer Trading, Tourism, Manufacturing, Agriculture, Real Estate and Contracting Company	Saudi Arabia	-	-	7,195,150	9,399,792
Jordanian Pharmaceutical Manufacturing Company	Jordan Saudi Arabia	0.40%	221,567	312,463	398,221
Sukuk (see note 9)			28,125,000	-	-
Total quoted investments			28,346,567	7,507,613	9,798,013
Unquoted investments:					
Makkah Medical Center Company	Saudi Arabia	7.50%	3,448,120	3,448,120	3,448,120
Al Ehsa Medical Services Company	Saudi Arabia	1.10%	1,748,145	1,798,145	1,798,145
Total unquoted investments			5,196,265	5,246,265	5,246,265
Other investments:					
Local real estate mutual fund			-	18,985,728	94,831,148
Total available for sale investments			33,542,832	31,739,606	109,875,426
Less: non-current portion			(5,417,832)	(31,739,606)	(109,875,426)
Current portion (see note 9)			28,125,000	-	-

Other investments

Other investments represented an investment in a listed local real estate mutual fund, in the units, which complies with Islamic sharia.

Unquoted investments

The fair value of these investments cannot be reliably measured and therefore have been stated at cost less impairment charges, if any. Management has assessed that there have been no indicators of impairment for any of these investments and accordingly no provision for impairment has been made for the year ended 31 December 2017 SR nil (31 December 2016: Nil and 1 January 2016: Nil).

(Loss) / gain on disposal of investments

During the year the Company sold its investment in Aseer Trading, Tourism, Manufacturing, Agriculture, Real Estate and Contracting Company. This resulted in loss on disposal of SR 5.4 million (2016: SR nil).

During the year the Company sold part of it holding in a local real estate mutual fund. This resulted in loss on disposal of SR 6.3 million (2016: gain of SR 9.4 million).

The total loss realised on sale of above investments of SR 11.7 million (2016: gain of SR 9.4 million) is charged in profit and loss account, refer to note 24.

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11. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The carrying amounts presented in the consolidated statement of financial position relate to the following categories of financial assets and financial liabilities:

	<u>Note</u>	As at 31 December 2017 <u>SR</u>	As at 31 December 2016 <u>SR</u>	As at 1 January 2016 <u>SR</u>
Financial assets				
Non-current:				
Available-for-sale investments	10	5,417,832	31,739,606	109,875,426
Held to maturity investment	9	-	28,125,000	28,125,000
		5,417,832	59,864,606	138,000,426
Current:				
Loans and receivables				
Cash and cash equivalents	12	90,440,266	186,556,641	93,403,056
Trade receivables	14	282,037,364	287,598,944	259,493,368
Due from related parties	16	181,612	844,184	825,047
Other assets		23,734,850	22,771,723	20,721,637
Available-for-sale investments	10	28,125,000	-	-
		424,519,092	497,771,492	374,443,108
Total financial assets		429,936,924	557,636,098	512,443,534
Financial liabilities				
Financial liabilities measured at amortised cost:				
Non-current:				
Long term murabaha finance	19	458,280,007	323,028,630	245,453,716
Current:				
Trade and other payables	21	89,835,217	69,995,236	64,625,152
Short term murabaha finance	19	70,056,876	86,841,876	82,260,866
Current portion of long term murabaha finance	19	35,500,000	71,500,000	65,583,334
Due to related parties	16	984,854	307,201	567,657
Other liabilities		7,128,047	6,643,695	5,104,130
		203,504,994	235,288,008	218,141,139
Total financial liabilities		661,785,001	558,316,638	463,594,855

See Note 5.7 for a description of the accounting policies for each category of financial instruments. Information relating to fair values is presented in the related notes. The methods used to measure fair value are described in the same note. A description of the Group's financial instrument risk, including risk management objectives and policies is given in Note 30.

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12. CASH AND CASH EQUIVALENTS

	As at 31 December 2017 <u>SR</u>	As at 31 December 2016	As at 1 January 2016 <u>SR</u>
Cash in hand	1,058,202	601,016	1,123,050
Cash at banks	89,382,064	118,155,625	92,280,006
Short term deposit	-	67,800,000	-
	90,440,266	186,556,641	93,403,056

13. INVENTORIES

	As at 31 December 2017 <u>SR</u>	As at 31 December 2016	As at 1 January 2016 <u>SR</u>
Medicines	66,027,999	66,009,101	74,898,229
Raw materials	3,596,748	5,219,402	6,449,259
Medical supplies	4,105,402	4,833,659	4,346,706
Medical consumables and cosmetics	5,085,744	4,964,734	3,503,367
Others	2,497,357	2,067,296	2,063,877
	81,313,250	83,094,192	91,261,438
Less: Provision for slow moving items	(1,381,403)	(13,944,543)	(3,281,023)
	79,931,847	69,149,649	87,980,415

The summary of the movement of provision for slow moving items is as follows:

	2017 <u>SR</u>	2016 <u>SR</u>
1 January	13,944,543	3,281,023
Charge for the year	1,567,973	25,373,432
Write-off inventories obsolescence	(14,131,113)	(14,709,912)
31 December	1,381,403	13,944,543

14. TRADE RECEIVABLES

	As at 31 December 2017 <u>SR</u>	As at 31 December 2016	As at 1 January 2016 <u>SR</u>
Accounts receivable	309,080,891	333,604,300	283,010,641
Less: Allowance for doubtful debts	(27,043,527)	(46,005,356)	(23,517,273)
	282,037,364	287,598,944	259,493,368

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14. TRADE RECEIVABLES (continued)

The summary for the movement of provision for doubtful debts is as follows:

	As at 31 December 2017	As at 31 December 2016	As at 1 January 2016
	<u>SR</u>	<u>SR</u>	<u>SR</u>
1 January	46,005,356	23,517,273	17,880,078
Charge for the year	(2,544,747)	31,848,298	17,229,038
Bad debts written off	(16,417,082)	(9,360,215)	(11,591,843)
31 December	<u>27,043,527</u>	<u>46,005,356</u>	<u>23,517,273</u>

All of the Group's Trade receivables have been reviewed for indicators of impairment. In the opinion of management there has been no impairment in the carrying value of trade receivables other than those mentioned in note 30.

15. PREPAYMENTS AND OTHER ASSETS

	As at 31 December 2017	As at 31 December 2016	As at 1 January 2016
	<u>SR</u>	<u>SR</u>	<u>SR</u>
Prepayments	17,049,739	15,899,168	23,252,151
Advances to suppliers	69,970,892	34,360,402	45,701,705
Retention receivables	-	9,124,197	11,844,540
Accrued revenue	4,652,292	11,758,267	15,308,700
Employees' advances	5,602,362	5,492,878	5,506,907
Receivable on sale of investments	13,807,210	-	-
Other current assets	5,500,065	9,789,463	4,148,660
Less: provision	(6,234,341)	(6,515,663)	(1,835,043)
	<u>110,348,219</u>	<u>79,908,712</u>	<u>103,927,620</u>

The summary for the movement of provision for other assets is as follows:

	2017	2016
	<u>SR</u>	<u>SR</u>
1 January	6,515,663	1,835,043
Additions	246,834	4,742,830
Write-off bad debts	(528,156)	(62,210)
31 December	<u>6,234,341</u>	<u>6,515,663</u>

16. RELATED PARTY TRANSACTIONS AND BALANCES

The Group in the normal course of business carries on business with other enterprises that fall within the definition of a related party contained in IFRS. These transactions are carried out in normal course of the business and are measured at exchange amounts, being the amounts agreed by both parties.

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2017, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2016: SR nil, 1 January 2016: SR nil). This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

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16. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The Group's related parties include its key management personnel Subsidiaries, sub-subsidiaries, associates and others as described below.

Services are provided and goods are sold by Group to its related parties as well as outside parties.

Details of related party transactions during the year are set out below:

Related party transactions

Significant transactions and balances with related parties in the ordinary course of business which are included in the consolidated financial statements are summarized as follows:

Nature of transactions	Related party	2017	2016
		<u>SR</u>	<u>SR</u>
Travel tickets	Common Director	6,587,401	5,911,653
Salaries and bonuses of the Group's executive directors Board of directors and committee members' remunerations	Senior management	1,451,333	3,164,800
Maintenance of air conditions	Senior management	3,100,000	3,114,500
Medical services	Common Director	1,553,987	2,274,567
Technical support	First degree relative Director	1,656,794	1,755,005
Financial consultancy	Common Director Ownership	3,662,900	3,106,565
Office rent	Common Director / Ownership	-	130,000
		-	40,000

Related party balances

Year-end balances resulting from transactions with related parties are listed below:

a) Due from related parties

	As at 31 December 2017 <u>SR</u>	As at 31 December 2016 <u>SR</u>	As at 1 January 2016 <u>SR</u>
Dallah Al Baraka Holding Group	167,411	829,983	810,846
Dallah Transport	14,201	14,201	14,201
	181,612	844,184	825,047

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16. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Related party balances (continued)

b) Due to related parties

	As at 31 December 2017 SR	As at 31 December 2016 SR	As at 1 January 2016 SR
Dareem Travel Agency	293,323	256,456	355,172
Dallah Trading Company	-	-	7,147
Adaptive Techsoft	629,191	-	-
Others	62,340	50,745	205,338
	984,854	307,201	567,657

17. SHARE CAPITAL

Share capital of the Company is 590,000,000 SR consists of 59,000,000 fully paid ordinary shares with a par value of SR 10 (31 Dec., 2016: SR 590,000,000, 1 January 2016: SR 590,000,000).

	As at 31 December 2017	As at 31 December 2016	As at 1 January 2016
Total shares authorised, issued and fully paid at	59,000,000	59,000,000	59,000,000

18. STATUTORY RESERVE

In accordance with the Regulations of Companies' law in the Kingdom of Saudi Arabia and the Company's Articles of Association, the Group should transfer 10% of the net profits for the year to a statutory reserve until such reserve equals 30% of its share capital. No transfer was made to statutory reserve for the year ended 31 December 2017 as the reserve has exceeded 30% of the Group's share capital and this was approved in Annual General Meeting. This reserve is not available for distribution to shareholders.

19. MURABAHA FINANCING

	As at 31 December 2017 SR	As at 31 December 2016 SR	As at 1 January 2016 SR
Financial liabilities measured at amortised cost			
Non-current			
Bank Murabaha Finance	458,280,007	323,028,630	245,453,716
Current			
Short-term bank Murabah Finance	70,056,876	86,841,876	82,260,866
Current portion of long-term bank Murabaha	35,500,000	71,500,000	65,583,334
	105,556,876	158,341,876	147,844,200
Total	563,836,883	481,370,506	393,297,916

The Group has murabaha finance contracts with local banks for the purpose of financing the expansion operations of the Company. These murabaha contracts are in Saudi Riyals and generally bear financial charges based on prevailing finance cost in the market. These murabaha contracts are guaranteed by promissory notes from the Company.

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19. MURABAHA FINANCING (continued)

On 30 Rabi I 1437 (corresponding to January 10, 2016) the Company signed an Islamic financing contract with a local bank amounting SR 640 million. This financing will be repaid in quarterly installments for 8 years after a grace period of 3 years. The Company aims to finance the expansion of Dallah Hospital – Nakheel from the proceeds of this financing. A promissory note with a total of SR 640 million was signed by the Company for the financing bank.

During the year ended 31 December 2017, the Group capitalized financial charges amounted to SR 12,458,300 (31 December 2016: SR 11,543,902). Finance expense charged for the year amounted to SR 1,873,398 (31 December 2016: SR 1,809,233)

The volume of murabaha financing obtained by the Group is approximately SR 1,662 million (31 December 2016: SR 2,011 million) of which SR 1,098 million represents the unused portion as at 31 December 2017 (31 December 2016: SR 1,530 million)

The covenants of some of credit facilities require the Group to maintain certain level of financial indicators and some other requirements.

20. EMPLOYEES DEFINED BENEFIT

	31 December <u>2017</u>	31 December <u>2016</u>	1 January <u>2016</u>
Net defined benefit liability	106,595,301	96,075,804	83,471,011

The Group accounts for employees defined benefit obligation as per the regulations of Saudi labour law.

Movement in net defined benefit liability

The following table shows the reconciliation from the opening balances to the closing balances for net defined benefit liability and its components.

	31 December <u>2017</u>	31 December <u>2016</u>	1 January <u>2016</u>
Balance at 1 January	96,075,804	83,471,011	89,349,273
Adjustment in retained earnings	<u>-</u>	<u>-</u>	(5,878,262)
Included in profit or loss			
Current service cost	16,136,777	33,128,468	-
Finance expense	3,843,032	3,977,547	-
Included in OCI			
Actuarial (gain) loss	5,542,405	(2,659,646)	-
Benefits paid	(15,002,717)	(21,841,576)	-
Balance at the end of the year	<u>106,595,301</u>	<u>96,075,804</u>	<u>83,471,011</u>

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20. EMPLOYEES DEFINED BENEFIT (continued)

Actuarial assumptions on defined benefit liability

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	<u>31 December</u> <u>2017</u> <u>KSA</u>	31 December <u>2016</u> KSA	1 January <u>2016</u> KSA
Discount rate	4%	4%	5.5%
Future salary growth	2%	3.1%	3%
Future benefits growth	2%	3.1%	3%

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	<u>31 December 2017</u>		31 December 2016		1 January 2016	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Discount rate (% movement)	(+0.5%) 4.90%	(-0.5%) 4.50%	(+1%) 5.5%	(-1%) 5.5%	(+1%) 5.5%	(-1%) 5.5%
Future salary growth (% movement)	(+0.5%) 5.10%	(-0.5%) 4.70%	(+1%) 4.00%	(-1%) 2.00%	(+1%) 4.00%	(-1%) 2.00%

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

21. TRADE AND OTHER PAYABLE

	<u>As at</u> <u>31 December</u> <u>2017</u> <u>SR</u>	As at 31 December 2016 <u>SR</u>	As at 1 January 2016 <u>SR</u>
Medicine suppliers	47,506,821	45,635,148	41,911,850
Medical material suppliers	33,161,706	16,890,620	14,999,420
Catering suppliers	1,262,259	986,263	1,179,847
General and administrative suppliers	5,606,043	3,990,928	4,319,907
Spare parts suppliers	2,085,047	1,496,665	1,926,078
Others	213,341	995,612	288,050
	89,835,217	69,995,236	64,625,152

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22. ACCRUED EXPENSES AND OTHER LIABILITIES

	As at 31 December 2017 <u>SR</u>	As at 31 December 2016 <u>SR</u>	As at 1 January 2016 <u>SR</u>
Employees' related accruals	26,686,745	28,620,161	25,027,518
Accrued expenses	20,152,187	21,226,597	14,774,583
Other payables	14,026,878	19,045,928	10,264,087
	<u>60,865,810</u>	<u>68,892,686</u>	<u>50,066,188</u>

23. ZAKAT

Components of the zakat base

	As at 31 December 2017 <u>SR</u>	As at 31 December 2016 <u>SR</u>	As at 1 January 2016 <u>SR</u>
Zakat base:			
Shareholders' equity	1,402,798,432	1,277,430,227	1,221,737,049
Provisions	120,145,530	93,480,157	56,642,121
Loans used in financing non-current assets	493,780,007	450,751,536	293,723,097
Adjusted net income	327,509,612	329,520,105	269,098,814
	<u>2,344,233,581</u>	<u>2,151,182,025</u>	<u>1,841,201,081</u>
Less: Property, plant and equipment, net	(1,771,525,773)	(1,400,072,111)	(1,142,490,334)
Investments	(146,678,586)	(202,678,692)	(279,425,321)
Intangible assets	(19,047,672)	(19,218,785)	(30,666,270)
Zakat base	<u>406,981,550</u>	<u>529,212,437</u>	<u>388,619,156</u>
Zakat for the year	<u>10,174,539</u>	<u>13,230,311</u>	<u>9,715,479</u>

Adjusted net income

	As at 31 December 2017 <u>SR</u>	As at 31 December 2016 <u>SR</u>	As at 1 January 2016 <u>SR</u>
Net profit before tax	306,502,584	238,725,747	174,730,979
Adjustments	21,007,028	90,794,358	94,367,835
Adjusted net income	<u>327,509,612</u>	<u>329,520,105</u>	<u>269,098,814</u>

Zakat provision

	As at 31 December 2017 <u>SR</u>	As at 31 December 2016 <u>SR</u>	As at 1 January 2016 <u>SR</u>
1 January	13,230,311	9,715,479	9,086,498
Provided during the year	10,174,539	14,011,532	9,673,911
Adjustment	(727)	-	-
Payments made during the year	<u>(9,438,088)</u>	<u>(10,496,700)</u>	<u>(9,044,930)</u>
31 December	<u>13,966,035</u>	<u>13,230,311</u>	<u>9,715,479</u>

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24. OTHER INCOME

	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>
Scientific support	2,970,000	2,493,005
Rentals	3,616,894	3,037,781
Buffet	2,102,992	1,990,477
(Loss) / Gain on sale of investments	(11,688,328)	9,416,011
Return on investments	1,353,789	516,537
Dividends received	400,844	400,844
Gain on sale of property and equipment	251,651	(155,180)
Other	1,870,359	1,535,923
	<u>878,201</u>	<u>19,235,398</u>

25. SELLING AND MARKETING EXPENSES

	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>
Advertising and promotions	4,944,309	11,875,709
Salaries, wages and benefits	4,602,192	10,773,351
Marketing incentives	425,613	432,795
Others	1,587,003	1,613,809
	<u>11,559,117</u>	<u>24,695,664</u>

26. ADMINISTRATIVE EXPENSES

	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>
Salaries, wages and benefits	171,062,447	145,493,114
Material	26,279,752	23,444,261
Maintenance and services	4,017,068	16,512,673
Professional fees	5,610,121	6,131,479
Provision for doubtful debts	(2,544,747)	31,000,710
Provision for inventories	1,567,973	25,373,432
Utilities	3,509,247	3,314,172
Rentals	5,056,034	3,895,817
Board of Directors and related committees remunerations	3,100,000	3,114,500
Insurance	2,882,289	3,133,889
Stationery	2,818,071	2,352,290
Depreciation	3,092,760	3,965,607
Permissions and licenses	1,141,732	1,809,686
Training and development	2,714,868	2,648,562
Other	9,236,047	7,815,696
	<u>239,543,662</u>	<u>280,005,888</u>

27. DIVIDENDS

On 30 Rajab 1438H (corresponding to April 26, 2017), the general assembly of the Company approved a distribution of cash dividends for the financial year ended 31 December 2016 amounting SR 118 million at SR 2 per share (31 December 2016: SR 88.5 million).

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28. EARNINGS PER SHARE

Earnings per share for profit and loss attributable to ordinary shareholders for the year ended 31 December 2017 and 2016 are computed based on the weighted average number of shares outstanding during such periods. The diluted earnings per share are the same as the basic earnings per share as the Group does not have any dilutive instruments in issue.

	<u>2017</u>	<u>2016</u>
Profit for the year attributable to equity holders of the Group	294,976,212	224,714,215
Weighted average number of shares	59,000,000	59,000,000
Basic earnings per share	5.00	3.81

29. CONTINGENCIES AND COMMITMENTS

Operating lease commitments

The Group has no major outstanding lease commitments as at 31 December 2017 (31 December 2016: SR nil and 1 January 2016: SR nil).

Capital commitments

As at 31 December 2017, the Group had capital commitments that mainly relate to the construction contracts of the expansion of Dallah Hospital – Al-Nakheel and the construction of Dallah Hospital-Namar amounting to SR 172.6 million (31 December 2016: SR 332.9 million and 1 January 2016: SR 434.6 million).

Contingent liabilities

As at 31 December 2017, the Group has a contingent liability in the form of bank guarantees amounting to SR 4.6 million which have been issued on behalf of the Group in the normal course of business (31 December 2016: SR 6.6 million and 1 January 2016: SR 4.7 million).

There are some legal cases filed against the Company, in the normal course of business, and is currently pleading them, but the final outcome of such cases is not certain yet. Management does not expect the outcome of these cases to be material to the consolidated financial statements of the Group.

30. FINANCIAL INSTRUMENT RISK

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between the book values under the historical cost method and fair value estimates. Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is determined using valuation techniques including the Discounted Cash Flows Model ("DCF"). The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgment includes considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

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30. FINANCIAL INSTRUMENT RISK (continued)

Risk management objectives and policies

The Group is subject to various financial risks due to its activities including: Market risk (including currency risk, fair value and cash flows of interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Senior management is responsible for risk management. Major risks comprise currency risk, fair value and cash flows of commission rate risk, credit risk, liquidity risk and fair value risk. Financial instruments carried on the consolidated statement of financial position include cash and cash equivalents, investments, accounts receivable, due from/to related parties, prepayments and other current assets, short and long -term murabaha finance, accounts payable and accrued expenses and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. Financial asset and liability is offset and net amounts reported in the consolidated financial statements, when the Company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

The impact of disclosures of the financial assets and liabilities in accordance with the fair value hierarchy is not considered to be material.

The most significant financial risks to which the Group is exposed are described below.

30.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: commission rate risk, foreign currency risk and other price risk such as equity price risk and commodity price risk. Financial instruments affected by market risk include loans and borrowings and derivative financial instruments.

Commission rate risk

Fair value and cash flow interest rate risks are the exposures to various risk associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group is not exposed to fair value and cash flow commission rate risks as investments in long term murabaha finance have a fixed income rate or a fixed finance rate.

Management of the Group does not enter into future agreement to hedge its interest rate risk. However, these are monitored on regular basis and corrective measures initiated wherever required. All of the borrowings are on fixed interest rates; therefore interest rate sensitivity analysis has not been disclosed.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi riyals, Jordanian dinars and US dollars. Management monitors changes in currency rates and believes that currency risk is insignificant.

Management of the Group does not enter into future agreement to hedge its currency risk. However, these are monitored on regular basis and corrective measures initiated wherever required.

Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group is exposed to price risk with respect to ownership of shares held by the Group and classified as available for sale investment in the consolidated statement of financial position. The Group has diversified its investment portfolio in order to manage the price risk arising from investments in equity securities.

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30. FINANCIAL INSTRUMENT RISK (continued)

30.2 Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

	As at 31 December 2017 SR	As at 31 December 2016 SR	As at 1 January 2016 SR
Classes of financial assets - carrying amounts:			
Trade receivables	282,037,364	287,598,944	259,493,368
Amounts due from related parties	181,612	844,184	825,047
Cash and cash equivalents (excluding cash in hand)	89,382,064	185,955,625	92,280,006
Total carrying amount	<u>371,601,040</u>	<u>474,398,753</u>	<u>352,598,421</u>

Customer credit risk is managed subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored. A percentage approximating to 18% of trade receivables is due from governmental bodies as at 31 December 2017 (31 December 2016: 29% and 1 January 2016: 31%).

Amounts due from related parties are considered by management as fully recoverable.

To manage its risk exposure, the Group places its cash with reputable banks.

None of the Group's financial assets are secured by collateral or other credit enhancements.

The Group's trade receivables which are past due but not impaired amount to SR 282 million (2016: SR 288 million and 1 January 2016: SR 259 million) can be shown as follows:

	As at 31 December 2017 SR	As at 31 December 2016 SR	As at 1 January 2016 SR
Not more than six months	161,579,706	173,394,343	168,091,084
Over six months but less than one year	76,920,024	26,709,402	38,932,315
More than one year	43,537,634	87,495,199	52,469,969
Total	<u>282,037,364</u>	<u>287,598,944</u>	<u>259,493,368</u>

As at 31 December 2017, trade receivables of SR 16.4 million (31 December 2016: SR 9.3 million and 1 January 2016: SR 11.6 million) were impaired. The amount of the provision was SR 27 million as at 31 December 2017 (2016: SR 46 million and 1 January 2016: SR 24 million).

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30. FINANCIAL INSTRUMENT RISK (continued)

30.3 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. The Company assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

All financial liabilities as disclosed in note 11 are non-interest bearing and have contractual maturity dates as follows:

	Average interest rate per annum	Within 1 year <u>SR</u>	1 to 5 years <u>SR</u>	Over 5 years <u>SR</u>	Total <u>SR</u>
December 31, 2017					
Borrowings	2.5% - 3.6%	105,556,876	458,280,007	-	563,836,883
December 31, 2016					
Borrowings	2.5% - 3.6%	158,341,876	323,028,630	-	481,370,506
January 1, 2016					
Borrowings	2.5% - 3.6%	147,844,200	245,453,716	-	393,297,916

The above amounts reflect the contractual cash flows, which may differ to the carrying values of the liabilities at the reporting date. Balances due within one year equal their carrying balances as the impact of discounting is not significant.

30.4 Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

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30. FINANCIAL INSTRUMENT RISK (continued)

30.5 Fair value and fair value hierarchy

The Group measures financial instruments, such as available for sale investments at fair value at each statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Group determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement. External valuers are involved for valuation of significant assets. The involvement of external valuers is decided by the Company after discussion and approval by the Group's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Company decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Company analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Company also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Fair values of quoted securities are based on available market prices at the reporting date adjusted for any restriction on the transfer or sale of such investments. Fair values of investments in mutual funds are based on last unit price of the fund announced by Fund Manager before or at period end. Fair values of unquoted securities are based on a reasonable estimate determined by reference to the current market value of other similar quoted investment securities.

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30. FINANCIAL INSTRUMENT RISK (continued)

30.5 Fair value and fair value hierarchy (continued)

The Company has not disclosed the fair value for financial instruments such as short term trade and other receivables, trade and other payables and cash and bank balances, because their carrying amounts are a reasonable approximation of fair values largely because of short term maturity of these instruments. Company has disclosed the fair values of long term murabaha finance measured and Sukuk investment (measured at amortized cost). The fair value of Sukuk investment is measured in reference to its quoted market price. The fair value of murabaha finance facility is approximately the same as the carrying value.

Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realised or intended to sold or consumed in the normal operating cycle.
- Held primarily for the purpose of trading.
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.
- All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle.
- It is held primarily for the purpose of trading.
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

31. SEGMENTAL INFORMATION

The Group's operations principally consist of one main operating segment, which is hospital services. Accordingly, presenting different segmental information is not considered necessary. Furthermore, the vast majority of the Group's operations are conducted in the Kingdom of Saudi Arabia.

32. FIRST TIME ADOPTION OF IFRS

The consolidated financial statements, for the year ended 31 December 2017, are the first the Group has prepared in accordance with IFRS. For all periods up to and including 31 December 2016, the Group prepared its financial statements in accordance with Saudi Organization of Certified Public Accountants (SOCPA).

Accordingly, the Group has prepared financial statements which comply with IFRS applicable for periods ending on or after 31 December 2017, together with the comparative period data as at 31 December 2016 and for the year ended 31 December 2016, as described in the summary of significant accounting policies. In preparing these financial statements, the Group's opening statement of financial position was prepared as at 1 January 2016, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its SOCPA financial statements, including the statement of financial position as at 1 January 2016 and as at 31 December 2016.

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32. FIRST TIME ADOPTION OF IFRS (continued)

32.1 Exemptions

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Group has applied the following exemptions:

- IFRS 3 Business Combinations has not been applied to the acquisition of its subsidiary (Dallah Pharma Factory) and an associate (Dr. Mohammed Rashed Al-Faqeeh Company), which are considered business combinations that occurred before 1 January 2016 as the Group opted to use the exemption from retrospective application of IFRS 3 as per IFRS 1. Use of this exemption means that the SOCPA carrying amounts of assets and liabilities were considered as their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position. However, the Group did not recognize or exclude any previously recognized amounts as a result of IFRS recognition requirement.
- IFRS 1 exemption related to retrospective application of IFRS 3, related to the carrying amount of goodwill has been availed where, as per SOCPA, the carrying amount of goodwill must be stated on the transition date in the statement of financial position, apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets. In accordance with above said requirement of IFRS 1, goodwill in respect of acquisition of subsidiary (Dallah Pharma) was tested for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary as at 1 January 2016. Group also tested its entire investment in associate (Dr. Mohammed Rashed Al-Faqeeh Company) and no impairment has been recognized in this respect.
- The Group opted for the exemption to apply the transitional provisions in IFRIC 4 –“Determining whether an Arrangement Contains a Lease “and has assessed all arrangements based upon the conditions in place as at the date of transition to determine if they contain lease.
- The Group opted for the exemption to apply the transitional provisions in IAS 23- “Borrowing Costs” and has not restated borrowing costs capitalized under SOCPA prior to the date of transition to IFRS.
- The Group has designated quoted and unquoted equity instruments held at 1 January 2016 as available-for-sale investments.

32.2 Estimates

The estimates as at 1 January 2016 and as at 31 December 2016 are consistent with those made for the same dates in accordance with SOCPA (after adjustments to reflect any differences in accounting policies) apart from employees’ end of service benefit where application of SOCPA did not require actuarial estimation.

The estimates used by the Group to present these amounts in accordance with IFRS reflect conditions as at 1 January 2016, the date of transition to IFRS and as of 31 December 2016.

Group reconciliation of equity and income statement from previous GAAP to IFRS are analysed on the next page onwards:

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32. FIRST TIME ADOPTION OF IFRS (continued)

32.3 Group reconciliation of equity as at 1 January 2016 (date of transition to IFRS)

	<u>Note</u>	<u>SOCPA</u> <u>SR</u>	<u>Effect of</u> <u>transition to</u> <u>IFRS</u> <u>SR</u>	<u>IFRS</u> <u>SR</u>
ASSETS				
Non-current assets				
Property, plant and equipment	A	1,144,907,276	(2,416,942)	1,142,490,334
Intangible assets		30,666,270	-	30,666,270
Investment in associate		141,424,895	-	141,424,895
Investments		138,000,426	(138,000,426)	-
Available-for-sale investments		-	109,875,426	109,875,426
Investment held to Maturity		-	28,125,000	28,125,000
		<u>1,454,998,867</u>	<u>(2,416,942)</u>	<u>1,452,581,925</u>
Current assets				
Cash and Cash equivalents		93,403,056	-	93,403,056
Inventory		87,980,415	-	87,980,415
Trade receivables		259,493,368	-	259,493,368
Due from related parties		825,047	-	825,047
Prepayments and other assets		103,927,620	-	103,927,620
		<u>545,629,506</u>	<u>-</u>	<u>545,629,506</u>
TOTAL ASSETS		<u><u>2,000,628,373</u></u>	<u><u>(2,416,942)</u></u>	<u><u>1,998,211,431</u></u>
EQUITY AND LIABILITIES				
Equity				
Equity attributable to owners of the parent:				
share capital		590,000,000	-	590,000,000
Statutory reserve		398,251,315	-	398,251,315
Retained earnings	A, B	390,211,936	3,461,320	393,673,256
Reserve for available for sale investments		14,543,457	-	14,543,457
Total Equity		<u>1,393,006,708</u>	<u>3,461,320</u>	<u>1,396,468,028</u>
Non-current liabilities				
Long term murabaha finance		245,453,716	-	245,453,716
Net employee defined benefit liabilities	B	89,349,273	(5,878,262)	83,471,011
		<u>334,802,989</u>	<u>(5,878,262)</u>	<u>328,924,727</u>
Current liabilities				
Trade and other payables		64,625,152	-	64,625,152
Short term murabaha finance		82,260,866	-	82,260,866
Current portion of long term murabaha finance		65,583,334	-	65,583,334
Due to related parties		567,657	-	567,657
Accrued expenses and other liabilities		50,066,188	-	50,066,188
Zakat payable		9,715,479	-	9,715,479
		<u>272,818,676</u>	<u>-</u>	<u>272,818,676</u>
Total liabilities		<u>607,621,665</u>	<u>(5,878,262)</u>	<u>601,743,403</u>
TOTAL EQUITY AND LIABILITIES		<u><u>2,000,628,373</u></u>	<u><u>(2,416,942)</u></u>	<u><u>1,998,211,431</u></u>

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32. FIRST TIME ADOPTION OF IFRS (continued)

32.4 Group reconciliation of equity as at 31 December 2016

	<u>Note</u>	<u>SOCPA</u> <u>SR</u>	<u>Effect of</u> <u>transition to</u> <u>IFRS</u> <u>SR</u>	<u>IFRS</u> <u>SR</u>
ASSETS				
Non-current assets				
Property, plant and equipment	A	1,403,607,239	(3,535,128)	1,400,072,111
Intangible assets		19,218,785	-	19,218,785
Investment in associate		142,814,086	-	142,814,086
Investments		59,864,606	(59,864,606)	-
Available-for-sale investments		-	31,739,606	31,739,606
Investment held to Maturity		-	28,125,000	28,125,000
		<u>1,625,504,716</u>	<u>(3,535,128)</u>	<u>1,621,969,588</u>
Current assets				
Cash and Cash equivalents		186,556,641	-	186,556,641
Inventory		69,149,649	-	69,149,649
Trade receivables		287,598,944	-	287,598,944
Due from related parties		844,184	-	844,184
Prepayments and other assets		79,908,712	-	79,908,712
		<u>624,058,130</u>	<u>-</u>	<u>624,058,130</u>
TOTAL ASSETS		<u>2,249,562,846</u>	<u>(3,535,128)</u>	<u>2,246,027,718</u>
EQUITY AND LIABILITIES				
Equity				
Equity attributable to owners of the parent:				
Share capital		590,000,000	-	590,000,000
Statutory reserve		398,251,315	-	398,251,315
Retained earnings	A, B	527,544,337	5,002,780	532,547,117
Reserve for available for sale investments		(4,642,458)	-	(4,642,458)
Total Equity		<u>1,511,153,194</u>	<u>5,002,780</u>	<u>1,516,155,974</u>
Non-current liabilities				
Long term murabaha finance		323,028,630	-	323,028,630
Net employee defined benefit liabilities	B	104,613,712	(8,537,908)	96,075,804
		<u>427,642,342</u>	<u>(8,537,908)</u>	<u>419,104,434</u>
Current liabilities				
Trade and other payables		69,995,236	-	69,995,236
Short term murabaha finance		86,841,876	-	86,841,876
Current portion of long term murabaha finance		71,500,000	-	71,500,000
Due to related parties		307,201	-	307,201
Accrued expenses and other liabilities		68,892,686	-	68,892,686
Zakat payable		13,230,311	-	13,230,311
		<u>310,767,310</u>	<u>-</u>	<u>310,767,310</u>
Total liabilities		<u>738,409,652</u>	<u>(8,537,908)</u>	<u>729,871,744</u>
TOTAL EQUITY AND LIABILITIES		<u>2,249,562,846</u>	<u>(3,535,128)</u>	<u>2,246,027,718</u>

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32. FIRST TIME ADOPTION OF IFRS (continued)

32.5 Group reconciliation of total comprehensive income for the year ended 31 December 2016

		SOCPA	Effect of transition to IFRS	IFRS
	<u>Note</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
Revenue		1,162,788,987	-	1,162,788,987
Cost of revenue	A	<u>(625,967,858)</u>	<u>(1,118,186)</u>	<u>(627,086,044)</u>
Gross profit		536,821,129	(1,118,186)	535,702,943
Selling and marketing		(24,695,664)	-	(24,695,664)
General and administrative		<u>(280,005,888)</u>	-	<u>(280,005,888)</u>
Profit from operations		232,119,577	(1,118,186)	231,001,391
Other income, net		19,235,398	-	19,235,398
Finance charges		(1,809,233)	-	(1,809,233)
Impairment losses		(11,091,000)	-	(11,091,000)
Share of profit of an associate		<u>1,389,191</u>	-	<u>1,389,191</u>
Profit before zakat		239,843,933	(1,118,186)	238,725,747
Zakat		<u>(14,011,532)</u>	-	<u>(14,011,532)</u>
Profit for the year		225,832,401	(1,118,186)	224,714,215
Other comprehensive income:				
Net movement on available-for-sale financial assets	C	-	(19,185,915)	(19,185,915)
Actuarial gain	B	-	2,659,646	2,659,646
Total comprehensive income for the year		<u>225,832,401</u>	<u>(17,644,455)</u>	<u>208,187,946</u>
Profit for the year attributable to:				
Owners of the parent		<u>225,832,401</u>	<u>(1,118,186)</u>	<u>224,714,215</u>
Total comprehensive income for the year attributable to:				
Owners of the parent		<u>225,832,401</u>	<u>(17,644,455)</u>	<u>208,187,946</u>

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For the year ended 31 December 2017

32. FIRST TIME ADOPTION OF IFRS (continued)

32.6 Notes to the reconciliation of equity as at 1 January 2016, 31 December 2016 and total comprehensive income for the year ended 31 December 2016

A. Depreciation of property, plant and equipment

IAS 16 requires significant components of an item of property, plant and equipment to be depreciated separately. At the date of transition to IFRS, a decrease of SR 2,416,942 was recognized in property, plant and equipment net of accumulated depreciation due to separate depreciation of significant components of items of property, plant and equipment (31 December 2016: SR 3,535,128). This amount was recognized against retained earnings.

B. Defined benefit obligation

Under SOCPA, the Group recognised costs related to its post-employment benefits as current value of the vested benefit to which the employee is entitled at the year end. Under IFRS, such liabilities are recognised on an actuarial basis. At the date of transition to IFRS the difference of SR 5,878,262 between the provision as per SOCPA and provision based on actuarial valuation liability has been recognized in full against retained earnings (31 December 2016: SR 8,537,908).

C. Movement on available-for-sale investments

Under SOCPA, the Group recognised the movement related to available-for-sale investments in the statement of changes in shareholders' equity as there was no requirement of showing other comprehensive income on the face of income statement. On transition to IFRS the difference between the fair value and the cost amounting to SR 19,185,915 for the year ended 31 December 2016 has been recognised in the consolidated statement of profit or loss and other comprehensive income as compared to, in the statement of shareholders' equity under SOCPA.

D. Changes due to presentation enhancement and reclassification

Certain changes in Group reconciliations to IFRS 1, due to presentation enhancement and reclassifications from SOCPA and IFRS, have no impact on the reported results or total equity.

E. Statement of cash flows

The transition from SOCPA to IFRS has not had a material impact on the statement of cash flows.

33. SUBSEQUENT EVENTS

- The Company signed a contract for mechanical, electrical and plumbing work related to the West Expansion of Dallah Hospital - Al-Nakheel on 28 January 2018, with an estimated total cost of SR 130,725,000.
- The Company signed an Islamic financing agreement with a local bank on 8 January 2018 for SR 1.3 billion for eight years, against a promissory note of SR 1.5 billion. The Company is intending to use this financing facility for the new and ongoing hospital projects.
- Subsequent to the year end, on 4 January 2018, the Company sold held to maturity investment in Sukuk at its carrying value of SR 28,125,000.

34. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been approved by the board of directors on 24 February 2018G corresponding 8 Jumada II 1439H.
